



**KENTUCKY TRANSPORTATION CENTER**

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# **Developing and Implementing Strategies to Address “Freddie Freeroader”**

**Kentucky Transportation Center Research Report —  
KTC-11-12/SPR 391-10-1F**

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**Research Report**  
KTC-11-12/SPR 391-10-1F

**Developing and Implementing Strategies to Address “Freddie Freeroader”**

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in cooperation with  
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and

Federal Highway Administration  
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<b>16. Abstract</b> <p>Although the majority Kentucky's citizens pay their fair share of motor vehicle registration taxes, there are indications that a number of citizens evade motor vehicle property and usage tax through a variety of means. Some individuals license their cars in states that have no, or very low, property taxes on motor vehicles; others abuse the use of temporary tags, or simply fail to renew the registration on their vehicles. As a result, Kentucky is losing income that would be used to repair the state's roadways and fund local services such as schools, libraries, health departments, and police and fire services.</p> <p>Despite the efforts of the Kentucky Department of Revenue and Kentucky State Police, collections from vehicle usage tax and property tax evaders have never reached their potential. This is primarily due to the limited resources available to these agencies and past technological challenges that prevented the ready identification of tax evaders. The objective of this research was to study new investigative techniques and technologies that are now available, and which could help to improve and streamline the Department of Revenue's collection efforts.</p> <p>There are more tools available now to compliance staff within the Department of Revenue that will facilitate efforts to identify and verify a person's residence. However, a more concerted effort is necessary to increase the collection of vehicle property and usage taxes. These tools have made the process more efficient, but additional resource commitments must be made in order to ensure that tax evaders — once identified — ultimately pay their taxes, penalties and interest.</p>			
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## Executive Summary

Although the majority Kentucky's citizens pay their equitable share of motor vehicle registration taxes, there are indications that a number of citizens avoid paying motor vehicle property and usage taxes through a variety of means. Some individuals license their cars in states that have no, or very low, property taxes on motor vehicles; others abuse the use of temporary tags, or simply fail to renew the registration on their vehicles. As a result, Kentucky is losing income that would go toward repairing the state's roadways and funding local services such as schools, libraries, health departments, and police and fire services. The number of drivers cheating on the motor vehicle taxes (nicknamed *Freddie Freeroaders*, because they drive on Kentucky highways free while others pay the taxes necessary for the maintenance of Kentucky's highways) is difficult to determine. Consequently, estimating the amount of revenue lost to these Freeroaders also poses significant challenges.

Despite the efforts of the Kentucky Department of Revenue and Kentucky State Police, collections from vehicle usage tax and property tax evaders have never reached their potential. This is primarily due to the limited resources available to these agencies and past technological challenges. This research effort focused on new investigative techniques and technologies that are now available to help streamline the Department of Revenue's collection efforts.

The SAC (Study Advisory Committee) examined different types of registration violations and determined that aggressive education outreach was needed to inform the public of the proper vehicle registration process. A website was designed and launched that detailed the significance of all drivers paying their fair share of the vehicle property tax and usage tax. The website also provided an anonymous way to report Freeroaders. The committee allocated significant time to developing informational brochures, posters, and a video, each of which demonstrates how vehicle property taxes are used to support local schools, libraries, health departments, police, fire, and ambulance services.

Because of the informational blitz carried out by the Kentucky State Police and county clerks, reports to the Freddie Freeroader website via mail and through the Department of Revenue's 800 line increased dramatically. Additional staff were hired to specifically handle the number of tax evasion reports.

The SAC identified a number of methods to estimate the magnitude of vehicle tax evasion in Kentucky. One way to gauge the extent of the tax evasion was to identify the number of Kentucky residents that have car insurance and compare these data to the total number of vehicles registered in the state. However, this effort could not be implemented due to privacy issues, even though the agencies involved have an agreement to share information. Another proposed method of discovery was to examine whether citizens who have relocated to Kentucky obtained new driver's licenses *and* registered their vehicles. This method proved successful but was not implemented due to inadequate staffing.



## **1.0 Introduction**

Due to insufficient fuel tax and usage tax collections, Kentucky's Road Fund may be facing over a \$100 million budget shortfall. Vehicle Usage Tax collection on first time registration of motor vehicles has always been an area of concern due to the practice of Kentucky residents licensing their vehicles in one of Kentucky's surrounding states. Depending on the licensing and tax laws of the other state, a Kentucky resident might be able to avoid the 6 percent usage tax, the annual vehicle property tax, and even the requirement to show proof of insurance at the time of licensing their vehicle. Identifying these individuals and the sheer level of evasion have been long-standing problems. Determining whether they have a valid reason for not plating a vehicle in Kentucky (e.g., dual residency, student exemption, and military) or whether they should be required to obtain a Kentucky plate is a function of the Kentucky Department of Revenue's Motor Vehicle Property Tax Section. The Department of Revenue (DOR) and the Kentucky Transportation Cabinet (KYTC) recognized that renewed efforts were needed to identify and eliminate vehicle tax evaders in an effort to recoup lost revenues during a time of fiscal tightening. A prior effort that began in the mid-1980s achieved a high level of success but lost steam. Due to changing priorities, it was restarted. The challenge was to identify the extent of the evasion problem and determine the best practices to establish to require those individuals involved to correctly obtain a Kentucky registration.

Although the majority of Kentucky's citizens pay their fair share of motor vehicle registration taxes, there are indications that a number of citizens avoid paying motor vehicle property and usage tax through a variety of means. Some individuals license their cars in states that have no, or very low, property taxes on motor vehicles; others abuse the use of temporary license plates, or simply fail to renew the registration on their vehicles. As a result, Kentucky is losing income that would go toward the repair of the state's roadways, fund local schools, and provide other services. The number of individuals cheating on the motor vehicle taxes (nicknamed *Freddie Freeroaders*, because they drive on Kentucky highways free while others pay the taxes necessary for the maintenance of Kentucky's highways and to fund local schools, libraries, health departments, and police, fire, and ambulance services) is difficult to calculate. Consequently, the amount of revenue lost to these Freeroaders is also challenging to estimate.

## **2.0 Background History of the Freddie Freeroader Program**

The Freddie Freeroader motor vehicle tax compliance program began in October 1985 under Martha Layne Collins's gubernatorial administration. Table 1 contains a history of the Freddie Freeroader program. Initially the Freddie Freeroader staff consisted of just one person. Over the next five years as the scope of tax compliance increased, the staff grew to as many as five employees. At first the scope was narrowly defined, and the Commonwealth only sought to identify motor vehicle property tax evaders (see original informational trifold in Appendix A). Then motor vehicle usage tax was added, followed by cablevision, personal pleasure boats, airplanes, dealer plate abuses, apportioned plated commercial vehicles and enterprise zone abuse.

**Table 1. Freddie Freeroader Program Chronology\***

Date	
1976	Creation of the Automated Vehicle Information System (AVIS), for the automated registration and titling of motor vehicles.
1984	Motor Vehicle property tax collection efforts moved from the county sheriff to the county clerk. Payment of motor vehicle property tax is required to register vehicles. The automated system and the requirement that motor vehicle property tax be paid before receiving vehicle registration dramatically improves collection of motor vehicle property tax.
1985	January 1, 1985, first assessment of Motor Vehicle Property Tax.
Oct. 1985	Revenue Cabinet begins designing the Freddie Freeroader program.
1986	Revenue Cabinet begins gradual implementation of Freddie Freeroader program with one full-time person.
Dec. 1986	\$276,354 payment from GMAC to cover cars leased by Kentucky citizens for which no property taxes were paid during 1984, 1985, and 1986.
Jan. 1988	Freddie Freeroader program reaches maximum size with five full-time people.
1988	Motor Vehicle Usage Tax enforcement included in Freddie Freeroader program. Toll-free anonymous tip hotline installed.
1987-1992	Program identifies approximately 26,758 vehicles, or 4459 vehicles per year, average yearly billing of \$1,888,101.
March 1993	Freddie Freeroader program transferred to Department of Property Tax, within the Revenue Cabinet. Priority of program reduced, staffing reduced to two employees.
November 1, 1997	Kentucky State Police begin statewide implementation of a program called "Operation Border Crossing", to catch those living in Kentucky with vehicles licensed in other states.
August 1, 1998	Effective date of HB 74, which changed the motor vehicle property tax valuation procedures as well as the assessment of the usage tax. Prior to HB 74 motor vehicle property tax was based upon the average retail value of the vehicle, usually based upon the NADA guide. HB 74 changed the basis for property tax calculation to the average trade-in value of the vehicle. This bill also changed the basis of the usage tax to the actual consideration paid for the vehicle.

\* Reproduced from Research Report No. 282, "Motor Vehicle Registration Abuse," Office for Program Review & Investigations, Legislative Research Commission, Frankfort, KY, June 1999.

One of the first efforts of the Freddie Freeroader program focused on the northern Kentucky area. Officials with DOR contacted personnel responsible for vehicle registrations in Ohio after discovering large numbers of leased vehicles operating out of the Cincinnati/Northern Kentucky International Airport in violation of Kentucky's U-Drive-It program. (The U-Drive-It program is an alternative method for the payment of Usage Tax as prescribed by [KRS 138.460](#). This allows for deferment of the tax at the time of registration. Payments are made based on rental and lease receipts generated by use of the vehicle). A list of leased/rental vehicles located on airport property was compiled, which indicated that all of these vehicles were licensed in Ohio. It was determined that Kentucky's Division of Motor Carriers had never applied Kentucky's "allocation formula" to identify the number of leased/rental cars to be licensed in Kentucky. Airport lease/rental vendors were informed that under the current Kentucky Property Tax law, the lessor (owner) was responsible for the property tax. The Kentucky DOR sent omitted or delinquent property tax bills to the vendors with penalty and interest charges. These bills were eventually paid, and the airport lease/rental vendors subsequently remained in compliance with Kentucky's Vehicle Property Tax. Another significant action taken early on was the collection of \$276,354 from General Motors Acceptance Corporation (GMAC) for property taxes it failed to pay on vehicles it leased to Kentucky citizens during 1984, 1985 and 1986.

The Freddie Freeroader program slowly grew and operated at full capacity from 1986 through 1992. In June 1987, the Freeroader staff sent copies of an estimated 1,000 delinquent/omitted property tax bills to the usage tax section urging them to check for usage tax liability. The usage tax staff examined the delinquent/omitted property tax bills and determined that usage tax liability existed and asked to be included as part of the Freddie Freeroader tax compliance effort. In 1988, both staffs were combined and several millions of dollars of Kentucky usage taxes were collected as a result. From October 1984 through March 1993, the staff of the Freddie Freeroader program sent out 26,970 tax bills (5,400 usage tax bills and 21,570 property tax bills), bringing in a total of \$5,016,707. The Freddie Freeroader program brought hundreds of owners of illegally licensed motor vehicles into compliance with Kentucky's titling, registration and revenue laws by permitting collection of delinquent and omitted property taxes and Kentucky usage taxes. However, this effort seemingly represented only a small percentage of unregistered motor vehicles in Boone, Kenton, Campbell, Bell, Daviess and Jefferson Counties. Factors that contributed to the low collections were purported to include staffing shortages due to the 1980s' budget restraints, lack of full cooperation from KYTC's Division of Vehicle Enforcement, and the compliance program's low priority among all other tax compliance programs. In March 1993, the Freeroader program was assigned to the Property Tax Section and staff was reduced to two.

According to a 1999 memorandum report issued by the Legislative Research Commission's Office for Program Review and Investigations regarding motor vehicle registration abuse (Research Report No. 282 - <http://www.lrc.ky.gov/lrcpubs/rr282.pdf>), from 1994 through 1998 Kentucky's DOR sent out 16,426 motor vehicle property tax bills amounting to \$3,100,310. Approximately 83.4 percent of the billed amount was collected, or \$2,585,726. During the same period, the DOR issued 889 motor vehicle usage tax bills in the amount of \$561,963 — only \$184,911 was collected (32.9 percent). The DOR's annual reports confirm this fact. The earliest publically available DOR annual report, for the 1996 to 1997 reporting period, indicates that 5,692 assessments were made, which resulted in the collection of \$771,689 in property taxes and

\$19,780 in usage taxes that were directly attributable to actions undertaken during the Freddie Freeroader program even though the staffing had been reduced and the priority of the compliance effort had been minimized.

The Kentucky State Police (KSP) and DOR teamed together and kicked off Operation Border Crossing in November 1997 for the specific purpose of catching vehicle-tax cheaters. However, the DOR annual reports for the 1997–1998 and 1998–1999 reporting periods reference neither the Freddie Freeroader Program nor the DOR/KSP Operation Border Crossing project.

Technologies also improved during this period with the development and implementation of programs enabling access to the International Registration Plan for commercial vehicle registrations, KYTC's ALTS system, Car Dealer/Employee registration plan, and the Automated Vehicle Information System for accessing registration inquiries and tax vehicle update screens. Coupling technological advances with the assistance received from the Justice Cabinet and Kentucky State Police, the Freddie Freeroader program was able to identify violators during field work. Despite this success, in 1993 the priority of the Revenue Cabinet's Freddie Freeroader program was minimized, although some counties continued their efforts.

The 1999 memorandum report issued by the Program Review and Investigations Committee of the Legislative Research Commission referenced problems associated with motor vehicle registration abuse within Kentucky. The report estimated that more than \$17 million per year in revenue was being lost to state and local government agencies due to individuals evading motor vehicle property and usage taxes through either abuse or circumvention of the state's motor vehicle registration system. All proceeds from the motor vehicle usage tax are earmarked for the state's Road Fund. Approximately 65 percent of the annual motor vehicle property tax collections go to county and local governments to fund schools and a variety of other special taxing jurisdictions. The remaining 35 percent of motor vehicle property taxes go into the state's general fund.

To promote more effective collection of motor vehicle property tax revenue owed to Kentucky and a more equitable distribution of the property tax burden, the 1999 Program Review and Investigations Committee's report made the following recommendations:

- Continuation of the collaborative effort between the Kentucky DOR and Kentucky State Police to find and properly bill individuals with improperly registered motor vehicles, and,
- That the General Assembly consider providing an incentive to local law enforcement officials, as well as state police, by mandating that any fines or penalties assessed against motor vehicle registration abusers be shared with the organization responsible for identifying the registration abuse.

The DOR annual report for 1999–2000 indicates 5,360 assessments were made as a result of Operation Border Crossing, which resulted in the collection of \$1,423,837 in property taxes and \$24,581 in usage taxes. The 2000–2001 DOR annual report shows 4,852 assessments resulting in \$1,039,598 in property taxes and \$32,409 in usage taxes being collected and is directly attributable to the DOR/KSP Operation Border Crossing project. However, despite the efforts of

the Kentucky DOR and Kentucky State Police, collections from vehicle usage tax and property tax evaders never reached their potential. This was primarily attributed to the limited resources available to these agencies and past technological challenges. Accordingly, the next eight (8) DOR annual reports, from the 2001–2002 report through the 2008–2009 report, do not cite either the Freddie Freeroader program or the Operation Border Crossing project as being responsible for increased vehicle tax collections through compliance operations.

New investigative techniques and technologies are available today that could streamline these efforts and increase collections associated with motor vehicle tax evasions. These advances provide justification to revitalize the Freddie Freeroader program. One example of a new technique is examining the vehicle insurance database and comparing this information to registered vehicles within Kentucky. Kentucky requires insurance for all vehicles operating in Kentucky and if a Kentucky resident had an insurance policy for a vehicle but no vehicle registered in Kentucky, then that record could be flagged and investigated for vehicle registration improprieties. Another example of a new technique is to examine newly issued Kentucky driver's licenses for people who come from an out-of-state address and check for new motor vehicle registrations in those persons' hands. Educating the general populace on Kentucky's vehicle registration requirements and what these taxes and fees support at the community level should also increase vehicle tax compliance.

### **3.0 Study Objectives and Tasks**

The stated objectives of this study were to:

- Determine to what extent taxes and insurance requirements are being avoided by licensing vehicles outside of Kentucky, and,
- Implement and evaluate strategies to identify those residents who are violating Kentucky's vehicle registration statutes.

The following tasks were established by the Study Advisory Committee to achieve the study's stated objectives:

Task 1: Determine the number of vehicles insured by Kentucky residents that are not licensed in the Automated Vehicle Information System (AVIS). Note: This effort would require a one-time computer programming cost payable to Commonwealth Office of Technology (COT).

Task 2: Identify the different types of registration evasion and whether specific methods are needed to detect each of them. Registration evasions may include but are not limited to, the Kentucky resident that "claims" a residency in another state, college students who have become residents to lower their tuition but have their vehicle registered in another state, and new residents to Kentucky who do not register their vehicle in Kentucky because of a valid registration from their prior state.

- Task 3: Evaluate current Department of Revenue procedures for 800-line tips on registration violators. This procedure could include checks of the National Crime Information Center (NCIC), voter registrations, AVIS, Kentucky state tax filings, driver license databases, and Kentucky unemployment insurance records.
- Task 4: Determine the best course of action that will enable County Clerks to address tax evaders in their counties. This may include, but is not limited to, producing pamphlets/posters/banners for display in the Clerk's office, broadcasting public education messages through TV/radio/newspapers, and directly addressing the effect of reduced property tax revenues on local services such as schools (teachers) and other public servants (e.g., police, firefighters, librarians). This task will also attempt to determine if it is more efficient to have Department of Revenue employees or County Clerks address these efforts.
- Task 5: Establish a website that allows anonymous reporting of possible violators. This site will also serve as a filtering device to prevent the same vehicle from being checked multiple times if it is reported by more than one source.
- Task 6: Once an individual is determined to be in violation, determine the best approach to bring about compliance and proper tax payments and what efforts can be made to collect prior registration fees and property taxes (beyond current year) on registration violators. Determine if there needs to be an education process established for judges, local prosecutors and law enforcement to insure that registration and tax laws are properly enforced.
- Task 7: Work with the state of Tennessee to determine if there are ways to identify uninsured Kentucky residents who have fraudulently obtained a Tennessee registration because they are not required to show proof of insurance.
- Task 8: Produce final report for the study and develop an implementation plan.

### **3.1 Study Advisory Committee**

The Study Advisory Committee (SAC) that guided this research effort to revitalize the Freddie Freeroader program was comprised of volunteer members from the Kentucky DOR's Department for Collections, Motor Vehicle Property Tax Section and Property Valuation Section, the Kentucky Transportation Cabinet's (KYTC) Department for Vehicle Regulation (DVR), and Kentucky State Police (KSP). Additionally, personnel from the KYTC Office of Support Services and the Finance and Administration Cabinet's Commonwealth Office of Technology attended and contributed to the SAC meetings and outcomes as the study progressed. The goal of the committee was to investigate, develop and implement new strategies to identify vehicle-tax evaders in the Commonwealth by using new technologies and updated methods.

### **3.2 Study Advisory Committee Meetings**

The first SAC meeting was held in Frankfort in August 2009. During this meeting members reviewed the work plan that was developed by staff at the Kentucky Transportation Center (KTC) based upon prior input gathered from SAC members. After approving the scope of work and budget, the SAC members discussed the individual tasks of the scope of work and developed a plan to complete each task. For some tasks, this entailed working cooperatively. The SAC members discussed each task and what was required to move forward on each. The SAC approved the allocation of a portion of the study funds for programming work (required as part of Task 1). These funds would be directed to the COT, and the programming focused on examining some existing KYTC databases to determine potential violators of Kentucky's vehicle registration requirements. Specifically, the programming would be necessary to identify Kentucky residents that had an automobile insurance policy for a vehicle that was not also registered in Kentucky. The committee discussed different examples of known registration violations and potential methods to detect the violations. Task 3 involved evaluating the current procedures for handling tips through the Freddie Freeroader hotline, and the committee recommended investigating potential databases such as voter registration rolls, state tax filings, driver licenses, and others to verify registration abuse. The committee devised a plan to update the Freddie Freeroader informational pamphlets, create a Freddie Freeroader website for anonymous tips, produce a public service announcement detailing the issues associated with Kentucky citizens that fail to pay their share of the tax burden in their county, and develop an educational packet for enforcement officers on what to look for and how to handle violations.

The SAC chose to focus initial efforts on counties perceived to have the highest non-compliance rate for vehicle tax collections. The pilot area for this study was Northern Kentucky, specifically Kenton, Campbell and Boone Counties. The committee stressed the importance of supporting enforcement activities. The SAC felt this would promote success and increase the level of feedback from the county clerks in order to gauge the revitalized effort to increase vehicle tax compliance. Contact previously had been made with the Kenton County Clerk and their office indicated an eagerness to implement the renewed program to get residents to properly register their vehicles. The committee was made aware of an upcoming meeting of the Kentucky County Clerks Association. Several SAC members planned to attend the meeting to present information related to the Freddie Freeroader program. The committee also recommended that contact be made with the Kentucky Property Valuation Administrators Association to present similar information at their annual meeting.

The SAC continued to meet frequently throughout this study to discuss progress, issues and challenges. The result of the SAC's efforts to implement new strategies and techniques for the Freddie Freeroader program follows.

## **4.0 Study Results**

The work to revitalize the Freddie Freeroader program began with SAC members discussing the tasks and dividing responsibilities for each. At the outset, the emphasis was on those tasks considered the most easily achievable. The study results presented in what follows reflect the order the tasks were itemized in the study's original scope of work, not necessarily in the order the tasks were completed by the group.

### **4.1 Task 1**

Kentucky residents are required to have current vehicle liability insurance in order to register their vehicles and must carry proof of that insurance in their vehicle. During Task 1 the research team compared information from vehicle insurance records and vehicle registrations to determine the number of vehicles that were insured by Kentucky residents but were not licensed in Kentucky's Automated Vehicle Information System (AVIS). A simple programming routine could compare vehicle identification numbers from the two sources. This information could then be used to investigate persons identified as having insurance for a vehicle not registered in AVIS.

After discussing this concept with staff from the Commonwealth Office of Technology (COT) and director of the KYTC's Office of Information Technology, the SAC was informed the data were available to examine, however, approval would be needed to access the insurance data due to potential legal concerns. A SAC member from the DOR set the wheels in motion to determine if the insurance records could be cross-referenced with vehicle registrations. The SAC believed there would be no issue with gaining access to the insurance policy holder information due to then current inter-agency data sharing policies. The request was eventually reviewed by a KYTC legal team. The request for access to vehicle insurance records to cross reference with vehicle registration data was ultimately denied, apparently due to concerns over language in House Bill (HB) 29, which prevents the Cabinet from selling or disseminating this information.

Nevertheless, the research team was able to use statistical information. This information could be used to derive the number of people who had insurance but no vehicles registered in Kentucky — but not the individual's information. The SAC discussed getting these statistics for each county in the target area as well the entire state. The statistics could then be used to target enforcement efforts in areas where these individuals were most concentrated. The DOR could also use the statistical information to justify to the legislature why it is imperative to change the statute to enable access to specific data to identify these potential tax evaders. Ultimately, the SAC chose not to pursue this effort further, ruling the effort beyond the scope of the present study.

### **4.2 Task 2**

The SAC examined potential different types of registration evasion and whether specific methods were needed to detect each of them. Examples of the types of registration evasions include, but are limited to, a Kentucky resident that claims a residency in another state, college



students who have become residents to reduce their tuition despite having their vehicle registered in another state, and new state residents who do not register their vehicle in Kentucky because they still possess a valid registration from their previous state of residence. There have been documented instances of retirees licensing their vehicles in other states, primarily Florida, while maintaining an address and voting privileges in Kentucky. Universities must be diligent and have sound policies in place to prevent abuse of in-state tuition rates. Often, out-of-state students will apply for a Kentucky driver license during their freshman year and claim residency during their second year to receive in-state tuition while leaving their vehicle registered in their home state. Another registration violation stems from persons either knowingly or unknowingly failing to register their vehicle within the proper timeframe after moving into Kentucky. New residents to the Commonwealth are required by law to update their driver's license with their new address within 10 days of relocating. They must also register their vehicles with their new county of residence within 15 days of establishing a new address. Some new residents often wait until their existing license plate expires before they register their vehicle(s) with their county clerk.

The SAC discussed the potential of using several databases to cross-reference with vehicle registrations. The SAC referenced the National Crime Information Center (NCIC), which had been used in the past to obtain information regarding vehicle licensing, as a resource that should be used again. Voter registration rolls, driver's licenses, and tax filings could also be used to verify residency of the vehicle's owner.

As part of this task, the registrar at the University of Kentucky (UK) was interviewed and queried about the procedures used by Kentucky universities to determine residency requirements for enrollment and their relationship to vehicle information. All state-funded schools in the Commonwealth follow Kentucky Administrative Regulation [13 KAR 2045E](#), "Determination of Residency Status for Admission and Tuition Assessment Purposes." This regulation establishes the guidelines and procedure used to evaluate the residency status of a student who is seeking admission to, or is enrolled at, a state-funded postsecondary educational institution. Section 10 of the regulation, "Criteria Used in a Determination of Residency Status," paragraph (3) addresses Kentucky automobile registration, driver's license, and voter registration requirements. The registrar stated emphatically that having a Kentucky driver's license coupled with a vehicle having an out-of-state registration would raise a red flag in the process. The discussion revealed that the registrars across Kentucky perform detailed investigations into residency requirements. Based upon this information, the SAC minimized efforts in this area.

The research team also contacted the University of Kentucky's Department of Parking and Transportation Services (PTS) about the Freddie Freeroader program to determine whether the office had any policies or procedures to detect vehicle registration abuse. The research team presented PTS staff an example of an observed expired Kentucky plate in a campus parking area with a current-year campus parking permit. The vehicle in question had a plate that expired in 2009 but had a valid 2010-2011 handicap parking permit. The team was informed that PTS did not have the ability to check for registration issues when issuing parking permits. The UK PTS official stated that the parking permits were issued to individuals, and that it was not mandatory to provide license plate information when obtaining a UK campus parking permit. UK PTS reported they did not issue citations for expired plates to vehicles parked on campus because they lacked authority to do so. For the example reported, the UK PTS official directed the team to

bring the expired plate to the attention of local law enforcement (e.g., UK's Police Department). The team encouraged the PTS administration to have parking enforcement staff document expired license plates and reach out to UK's Police Department for running vehicle reports and issuing citations. There is no reason that UK PTS should not work cooperatively with UK's Police Department to identify expired license plates parked on campus. The team did not contact other parking services offices at Kentucky's public colleges and universities to determine if they were making efforts to identify expired plates on their campus.

Toward the end of the study period, the SAC discussed the possibility of cross-referencing available data in AVIS and the state's driver license databases, given that those data were accessible and that new driver licenses issued in Kentucky contain a special code for persons moving into the Commonwealth. Specifically, the SAC discussed the timing requirements for obtaining a driver license when entering from out of state and those for registering a vehicle from out of state. The committee thought that comparing this information would help in identifying people that would acquire new driver's license when moving into the Commonwealth but not register their vehicle until their current vehicle registration expired in the state from which they moved. A query was then discussed that could be performed on a monthly basis that would pull all of the new driver's licenses issued by a county for the month that were coded as being a new entrant from another state. Results of the driver's license query would be used as input to search AVIS to determine whether or not a vehicle had been registered in the same county. If a positive match was not found (i.e., there was no vehicle registration under the same name as the newly issued driver's license), this information would be used to open an investigation into a possible registration violation and track the compliance effort. The committee agreed to proceed with this effort and the queries were prepared.

The SAC members worked with COT programmers to design the driver's license query and develop the required reports. The driver's license report included information on the date, name, address, and driver's license number. To determine whether a vehicle registration issue was present, a person reviewed the driver's license reports, examined the AVIS database, and manually flagged potential problems for investigation. The DOR Motor Vehicle Property Tax Section's investigative process is described in Task 3. Once a vehicle registration issue was identified, a notification letter would be generated that described registration requirements in Kentucky, the associated taxes and fees owed, and request compliance. Subsequent reports would then be searched to determine if the person registered their vehicle. The timing of the reports was problematic in that they would essentially have to be reviewed over three consecutive months to establish that a person identified during the first month had registered their vehicle(s) in a subsequent month.

Over the short period the monthly reports were examined, the effort proved successful and helped the state identify and notify a small number of people violating of Kentucky's vehicle registration. However, since the initial effort was labor intensive, staffing issues prevented full implementation. It was recommended to continue this effort but to streamline the process by creating a new database that contained the report information imported from the driver's license and vehicle registration databases. The new database could then be queried automatically for reports that identified people who had applied for a new resident driver's license but did not also

register a vehicle. Staff would then examine this list more closely to determine whether to contact the individual identified as a potential vehicle tax evader.

### **4.3 Task 3**

For Task 3, the research team evaluated current DOR procedures for anonymous reports received on the Freddie Freeroader 800 line, or website, for people suspected of violating vehicle registration laws. The SAC members described the investigative procedure that is performed by staff of the Motor Vehicle Property Tax Section when a tip is received through their 800 hotline or the Freeroader website as follows:

- 1) The information provided, typically a license plate number and where the vehicle was seen, is used to query the National Crime Information Center (NCIC). Information derived from the NCIC query includes the vehicle identification number (VIN), plate number, owners name, address, make, model, color and year of vehicle,
- 2) The information gained from NCIC is then used to query FAST DATA (a program to verify name, address, age),
- 3) Check Driver's License database,
- 4) Check Income Data on our databases,
- 5) Check Voter Registration,
- 6) Check temporary plates for past vehicles registered,
- 7) Check temporary plates for current vehicles registered,
- 8) Once the owner/operator of a vehicle is verified as a Kentucky Resident, a letter is sent advising them to register their vehicle in Kentucky, and,
- 9) If the person does not submit a reply within 30 days, they receive a usage tax bill for the 6 percent Kentucky usage tax. Bills are also issued for any omitted Annual Personal Property Tax based on the vehicle's status.

The committee concurred that these investigative methods were sufficient to establish a vehicle owner's residency status. The committee acknowledged that the investigative process was very thorough and was perhaps the most that could be done to determine residency of a vehicle's owner. The committee agreed that no further efforts were necessary as part of Task 3 unless additional information sources became available that would help identify potential vehicle property and usage tax evaders.

### **4.4 Task 4**

Task 4 was designed to let county clerks address tax evaders in their counties by providing information to the public about the importance that taxes collected in their community play in their community. The SAC committed to developing Freddie Freeroader educational materials for county clerks to distribute through their offices. This entailed developing and producing a Freddie Freeroader video — the script to be used in press releases, and designing and producing paper, and bookmark slips explaining the program. The bookmarks would be primarily distributed by state police and other law enforcement officers during special details and ordinary stops. These materials would highlight the consequences of reduced property tax revenues on local services such as schools (e.g., teachers) and other public servants (e.g., police, firefighters,

librarians, county health department workers) and what the public could do to ensure that all residents pay their fair share for the benefit of the community and the services received.

The Graphic Design and Printing Section of the KYTC Office of Support Services was contacted and work proceeded to produce tri-fold pamphlets. These pamphlets contained images that depicted four public services funded through vehicle taxes. The images on the pamphlet included a library, a policeman, a teacher, and a fireman. Included in the pamphlet as well was information on vehicle taxes, their importance to the community, and where citizens could report suspected vehicle tax evaders. The Freddie Freeroader pamphlets underwent several reviews by SAC members before they were printed and distributed to the three target counties. The Graphic Design and Printing team also produced small banners with these images. The banners were displayed in the clerks' offices to promote the increased efforts to identify vehicle tax evaders and the return benefits their counties and the Commonwealth receive when taxes are paid. The bookmarks and pamphlets have been reproduced in Appendix B.

The Office of Support Services also oversaw development and production of an informational video for the Freddie Freeroader program. A script for the video was developed by SAC members. Three law enforcement officers, a KSP officer, a sheriff, and a county police officer, volunteered to read the script on film. The production staff filmed each officer reading the script and spliced together different portions of each clip to produce the final version. In the video, the officers explain Kentucky's vehicle registration requirements, why it is critical that everyone pay their fair share of usage and property taxes, and encourage citizens to use the 800 hotline or the new website to report suspected violators in their communities.

The SAC initiated efforts to publicize the Freddie Freeroader program through the governor's office. Commonwealth of Kentucky governor Steve Beshear has utilized a YouTube channel since 2008 to announce various items and policies related to the Commonwealth in his "About Kentucky" postings (see <http://www.youtube.com/playlist?list=PLDE6DA43C4FF66CD6>). Along with being posted on the governor's YouTube channel, videos were distributed to statewide media and subscribers. The SAC proposed using this medium to disseminate information about the Freddie Freeroader program. The governor would be able to emphasize in his announcement that identifying and eliminating vehicle tax evasion was a high priority in the Commonwealth. The governor's YouTube video, once released would serve in lieu of a formal press release

The SAC developed bullet points for the governor's commentary. These were then passed to the Office of the Secretary of Finance and Administration for review. A script for the video was produced from the bullet points and presented to Governor Beshear's communications staff. The script developed for the video presentation detailed Kentucky's requirements for driver's licensing and vehicle registration, the potential revenues lost through improper registrations, and what those revenues are used for within Kentucky's communities. The presentation would stress the importance of every Kentucky citizen meeting their share of the tax burden. Of Freeroading, the script stated, "Not only is it illegal, it isn't fair to the majority of Kentuckians who pay their share of local and state taxes collected through vehicle registration." It then provided on how citizens can use the 800 hotline number or the website to report suspected Freeroaders.

The SAC's request to have the governor use his "About Kentucky" video address to publicize the Freeroader program apparently never rose to a sufficient level of importance to be addressed by the Governor's office. The proposed video was never produced. However, the Freddie Freeroader video developed under this task was posted to YouTube as a Public Service Announcement by the Finance and Administration Cabinet. Appendix C includes a link to this video. The video is also posted on the Freeroader website. The Freeroader website is detailed within Section 4.5, Task 5.

This task also emphasized the need for many agencies to work together to reduce the magnitude of tax revenue lost due to registration abuses. Committee members attended meetings of the Kentucky County Clerks Association and the Kentucky Property Valuation Administrators Association to present information about DOR, KYTC and KSP's efforts re-energized efforts to reduce vehicle registration abuse and share information on the tools available for citizens of Kentucky could use to report suspected violators through the toll-free number and new website, where anonymous tips could be submitted. The DOR added Freddie Freeroader links on their website for both of the groups to utilize.

This task also attempted to determine whether it would be more efficient to have Department of Revenue employees or county clerks contribute to efforts to publicize the Freeroader program. The SAC concluded that efficiencies improved when all of the agencies involved with motor vehicle taxes pulled together for the common good. The DOR, coupled with KYTC, has the wherewithal and expertise to provide materials and coordinate efforts among the county clerks, law enforcement, and KYTC to push this information out to the public. The Freddie Freeroader pamphlets are in an electronic format and can easily be reproduced at the clerk's offices. Receiving feedback from county clerks on the program's progress and their ability to be flexible will ensure its long-term success.

#### **4.5 Task 5**

The goal of Task 5 was to establish a website that would let users anonymously report possible violators. This work was performed in collaboration with DOR staff; the website is housed within the DOR's domain. The site was designed to be user friendly, letting users submit multiple reports without logging out and back in, and with backend software that filtered the reports and flagged license plates that had been reported more than once. The committee asked for a web address that would solidly identify it with the Freddie Freeroader program. The website can be reached at <http://www.freeroader.ky.gov>. A search on any web search engine using the words Freddie Freeroader provides a link to the website. The link for the Freddie Freeroader website was provided to KYTC, the Kentucky County Clerks Association and the Kentucky Property Valuation Administrators Association so their members could link to the Freddie Freeroader site from theirs. However, the Kentucky State Police or Commercial Vehicle Enforcement Division websites do not contain information the Freddie Freeroader program.

The Freddie Freeroader website was designed to deliver short, direct statements about the problem of vehicle registration abuse, the registration requirements in Kentucky, who the losers are if usage and property taxes are not paid, how the taxes are used, and a solution for the problem. Visitors to the site can obtain the 800 number to report violators or enter the vehicle

information and other details online. The website's text and reporting form are contained in Appendix C of this report in a text format.

Embedded in the Freeroader website is the Public Service Announcement developed as part of this study and described in Section 4.4, Task 4.

The committee expressed satisfaction with the site and staffers indicated the website had experienced increased traffic since the clerks and PVA associations had advertised the renewal of the Freddie Freeroader program.

#### **4.6 Task 6**

The committee wanted to ensure that once an individual has been found in violation of the law that the DOR's subsequent activities will bring about compliance and proper tax payments. The committee reviewed the processes used by DOR staff to identify and notify Freeroaders of vehicle registration and tax violations. Figure 8 (located in Appendix E) is an example letter that is sent to suspected violators. The committee discussed the letter and the follow-up procedures executed by the DOR staff and agreed that the DOR Motor Vehicle Tax Section has excellent procedures in place to track all complaints and verify that the vehicle registration issues have been resolved. Information presented in Figure 1 shows the billing results from the Motor Vehicle Tax Section for the years of 2010 and 2011. Note that there were no billings in February and September of that year. There was also more than a threefold increase in the number of reports and an 850 percent increase in the number of citizens billed for vehicle usage and property taxes. There were \$124,505 in total billings through the Freeroader program in 2010.

The committee also wanted to identify efforts that could be made to collect prior registration fees and property taxes (beyond the current year) on registration violators. Members from the DOR referenced [KRS 134.810](#), "Date on which taxes become due or delinquent" and ensured the other committee members that the DOR had the legislative authority to collect past due taxes, fees, penalties and interest. Many of the Kentucky Revised Statutes related to misuse of license plates are presented in Appendix F. The committee also discussed and agreed there should be an education process established for judges, local prosecutors and law enforcement to ensure the proper enforcement of registration and tax laws.

### *Freeroader Stats*

	2009	2010	2011
Reported	332	1084	1259
Letters	???	446	344
Billed	50	425	655

2010	Billed	Usage Value	Usage Tax	Property Value	Property Tax
January Totals	12	45,175.00	<b>2,710.50</b>	48,625.00	<b>615.43</b>
February Totals	0	0.00	<b>0.00</b>	0.00	<b>0.00</b>
March Totals	40	143,850.00	<b>8,631.00</b>	216,303.00	<b>2,750.88</b>
April Totals	16	38,675.00	<b>2,320.50</b>	35,350.00	<b>501.20</b>
May Totals	54	123,410.00	<b>7,404.60</b>	264,875.00	<b>3,657.15</b>
June Totals	86	346,101.00	<b>20,766.06</b>	482,925.00	<b>7,125.97</b>
July Totals	8	50,000.00	<b>3,000.00</b>	97,450.00	<b>1,296.13</b>
August Totals	79	178,039.58	<b>10,682.37</b>	483,380.00	<b>6,555.71</b>
September Totals	2	2,900.00	<b>174.00</b>	2,550.00	<b>41.78</b>
October Totals	73	331,940.00	<b>19,916.40</b>	775,900.00	<b>10,778.34</b>
November Totals	55	207,276.60	<b>12,436.60</b>	197,018.90	<b>3,352.34</b>
December Totals	0	0.00	<b>0.00</b>	0.00	<b>0.00</b>
	<b>425</b>	<b>1,467,367.18</b>	<b>88,042.03</b>	<b>2,604,376.90</b>	<b>36,674.93</b>

2011	Billed	Usage Value	Usage Tax	Property Value	Property Tax*
January Totals	74	16,420.00	<b>985.20</b>	5,346,218.00	<b>68,522.73</b>
February Totals	110	60,175.00	<b>3,610.50</b>	8,806,207.00	<b>111,923.63</b>
March Totals	13	17,600.00	<b>1,056.00</b>	841,062.00	<b>10,724.95</b>
April Totals	98	0.00	<b>0.00</b>	10,710,319.00	<b>138,927.57</b>
May Totals	3	12,525.00	<b>751.50</b>	21,275.00	<b>427.31</b>
June Totals	57	145,807.00	<b>8,748.42</b>	1,918,510.00	<b>25,554.55</b>
July Totals	106	265,845.00	<b>15,950.70</b>	1,662,884.00	<b>21,154.24</b>
August Totals	16	34,550.00	<b>2,073.00</b>	37,300.00	<b>589.88</b>
September Totals	15	37,075.00	<b>2,224.50</b>	790,235.00	<b>11,280.80</b>
October Totals	111	255,336.00	<b>15,320.16</b>	5,586,967.00	<b>71,040.32</b>
November Totals	52	0.00	<b>0.00</b>	4,460,000.00	<b>56,424.91</b>
December Totals	0	0.00	<b>0.00</b>	0.00	<b>0.00</b>
	<b>655</b>	<b>845,333.00</b>	<b>50,719.98</b>	<b>40,180,977.00</b>	<b>516,570.89</b>

\* Property tax figures include taxes assessed and collected as a result of identifying illegal recreational vehicle registrations.

**Figure 1. Freeroader Stats from 2010 and 2011.**

#### **4.7 Task 7**

The Tennessee Department of Revenue, Vehicle Services Division, administers vehicle title and registration services for the State of Tennessee. The services are available through 95 county clerk's offices across Tennessee. To title and register a new personal vehicle in Tennessee a vehicle owner must provide to the county clerk the Manufacturer's Statement of Origin, the new vehicle invoice, and a copy of the current registration if the license is being transferred to the new vehicle. If it is a used vehicle, the vehicle owner must provide a valid certificate of title properly assigned, an Odometer Disclosure Statement, and a copy of the current registration if the license is being transferred to the used vehicle. If the driver is moving from out of state and wishes to register a vehicle in Tennessee, then the vehicle must undergo emissions testing prior to registration if the county of registration requires it. Once a certificate of emissions compliance is received, this information along with the current out-of-state registration and any lien information must be presented. If no lien exists, then a valid out-of-state certificate of title is required. The applicant must also provide proof of identification and proof of residency when registering a vehicle; one primary and two secondary forms of identification are required.

Tennessee does not require proof of insurance when a vehicle is registered. However, there is a Financial Responsibility Law (T.C.A., 55-12-139) in Tennessee that was enacted in 2009 which addresses the need for liability insurance. Tennessee auto insurance is a requirement for all motorists who drive Tennessee's roads and must be presented to an officer that stops a vehicle for a moving violation or is involved in an accident. Failure to provide evidence of financial responsibility is a Class C misdemeanor punishable only by a fine of not more than \$100. Further, under the law; the state can suspend one's driver's license, their vehicle registration and even put a stop to registration renewal if evidence of financial responsibility is not provided upon request.

Based upon this information, the committee chose not to pursue this task further.

#### **4.8 Task 8**

This report addresses Task 8. An implementation plan was developed by the Study Advisory Committee but is not included in this document.

### **5.0 Conclusions and Recommendations**

The issue of tax compliance has been and continues to be a tremendous problem facing the Commonwealth of Kentucky. There are certainly more tools available to compliance staff within the DOR that will facilitate identification and verification of a person's residence, but much more needs to be done in the area of vehicle property tax and vehicle usage tax billings and collections. These tools have made the process more efficient, but additional resources must be available in order to complete the process — from identification to collections. A concerted effort must be made by the DOR, KYTC, Kentucky State Police, county clerks and local law enforcement personnel to encourage all Kentuckians to comply with the vehicle property and usage tax laws. This effort must begin at the local scale and be spearheaded by citizens that pay



their equitable share of taxes by keeping their vehicle properly registered in the county in which they live.

The pamphlets, information slips, public service announcement, and press releases have all informed Kentucky's citizens about the importance of vehicle property and usage taxes and the role they play in maintaining the state's highways. Therefore, the most important outcomes of this tax compliance effort has been growing the number of educated and concerned taxpayers, who will no doubt be vocal in eliminating Freeroaders. County clerks, county property valuation administrators, county judge executives, county and local law enforcement must work together and in concert with the DOR, Transportation Cabinet, and Kentucky State Police to reduce the number of Freddie Freeroaders by using the tools developed as part of this study.

The 2009–2010 DOR annual report indicated that the Freddie Freeroader program had been active since 1997 but had not been given full attention or updates since then. The DOR report detailed some of the tools used to reinvigorate the Freddie Freeroader program, including the “new updated materials such as: posters, tri-fold brochures and small flyers issued for the Northern Kentucky counties (Kenton, Boone and Campbell). The Motor Vehicle Property Tax Section (Motax) section delivered these materials to the County Clerk and PVA offices the middle of January for the offices to distribute to the taxpayers. As of July 1, 2010 the Motax section had received approximately 1,500 inquiries versus approximately 300 inquiries in 2009. Motax has billed for the vehicle assessments of \$697,211, (Assessed Value of Bills \$41, 836) from these counties. Motax has also worked with KYTC and recorded a PSA using a state trooper, county police officer and sheriff to hopefully broadcast on the Governor's weekly commentary. One of the most important factors during this project is that the Motax Section has made contact and resources with the Northern Kentucky police officers and are working together to enforce proper registration of these out of state plates that were given citations. Motax has proved to UK that the revitalization of this program has potential revenue.”

The 2010–2011 DOR annual report also validated the efforts to revitalize the Freddie Freeroader program. The report noted that “In FY2011, the Freddie Freeroader Program, targeting Kentucky residents with out-of-state license plates, brought in state and local property taxes totaling \$378,000 and proper registration of hundreds of vehicles.” Further, the report stated that “MOTAX has proved to UK that the revitalization of this program can generate a great deal of revenue.” The 2011–2012 DOR annual report observed that “during FY2012, the Freddie Freeroader Program brought in state and local property taxes totaling \$ 307,800 and proper registration of hundreds of vehicles.”

The success of this tax compliance effort is evident. The Freddie Freeroader program will continue to bring vehicle tax evaders in to compliance with Kentucky's licensing and registration requirements and generate significant revenues for the local communities to use for the services that are provided through these funds, but only if concerned taxpayers assist with ongoing efforts. In order for this program to fully achieve success, the DOR needs to make additional staff commitments to investigate residency issues, generate the notification letters, and provide the follow-up necessary to continue the focused effort to collect the taxes, fees, penalties and interest and eliminate vehicle tax evasion in Kentucky. Without a commitment to staffing resources, reports will not be investigated in a timely manner and the users of the anonymous

reporting tools will become frustrated and think nothing is being done with the information they have submitted. The Freddie Freeroader program also must have a strong connection with state and local law enforcement agencies to bring registration abuses to an end.

Due to time and resource constraints, the Driver's License report was never fully tested. To determine whether this method can effectively identify Freeroaders would have required an evaluation period of at least three months. A full-time employee must manually check each new Kentucky resident listed on the report. Each individual would need to be checked against the AVIS system to determine if they had licensed their vehicle within 30 days of obtaining a driver's license. Additionally, the employee would need to check AVIS the following month to verify individuals had complied following the receipt of a notification. While the initial examination indicated a significantly large and positive cost-benefit ratio, reliable estimates are not possible without fully evaluating the report.

The combination of shrinking budgets and personnel caps have left few financial or staffing resources available to undertake new projects. These restrictions can create an environment in which even a dime cannot be spent to bring in a dollar. Neither KYTC nor the Finance and Administration Cabinet were willing to commit to utilizing the Driver's License Report without a full evaluation of the process being performed. Both Cabinets indicated they would be open to looking at providing the necessary allocation of resources in the future to determine the financial value of the report.

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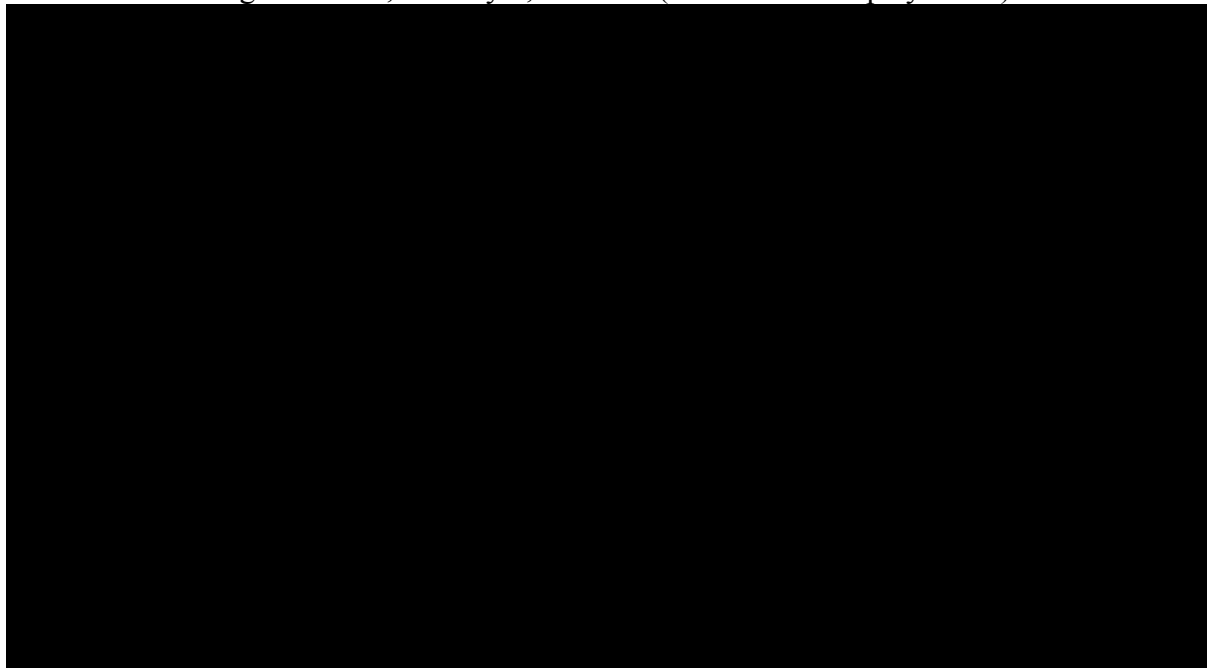
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Greenup County, KY

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Websites from other states with improper registration issues:

California Highway Patrol

<http://www.chp.ca.gov/prog/cheaters.cgi>

El Paso County, TX

<http://www.epcounty.com/taxoffice/vrap/default.htm>

Kentucky Department of Revenue Annual Reports >> <http://revenue.ky.gov/newsroom/>

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## **APPENDIX A**

### **Original Informational Freddie the Freeroader Pamphlet**

**Produced by the  
Kentucky Transportation Cabinet**

**Circa 1986  
Revised 2/2009**

## THE PROBLEM

Thousands of Kentuckians are beating the system through the improper use in Kentucky of motor vehicles bearing out-of-state license plates or improper use of temporary or other tags. Such use costs Kentucky millions of dollars annually in motor vehicle usage tax and ad valorem property tax.



## THE LAW

Kentucky law requires the registration of motor vehicles within 15 days from the date they are brought into Kentucky for use. A 6 percent motor vehicle usage tax is levied on motor vehicles for the privilege of operating on Kentucky highways, based on the value at the time they are first placed in service in Kentucky. Property tax is assessed annually on vehicles situated in Kentucky on January 1, based on their fair cash value.

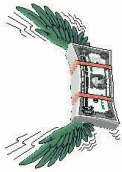


## WHO LOSES?

**You *do*!** Kentucky residents beating the system by registering vehicles in other states in order to avoid motor vehicle usage tax and ad valorem property tax make you, the **honest taxpayer**, the LOSER. Also new residents beating the system by failing to register their vehicles within 15 days after they move into

Kentucky make you the LOSER. The ultimate LOSERS are your local school districts and services dependent on revenues from the evaded taxes.

## WHERE THE MONEY GOES



The motor vehicle usage tax is used to build and maintain Kentucky's highways. Approximately 60 percent of the ad valorem property tax is returned to the local community, funding your public schools, your fire departments, your ambulance services, your libraries, etc., with the remainder contributing to the General Fund.

## THE SOLUTION

If you observe Kentucky residents beating the system by operating motor vehicles on Kentucky highways for more than 15 days with out-of-state license plates or more than 30 days with temporary or other tags, please help the Revenue Cabinet identify these **FREEROADERS** by calling toll free 1-800-882-8990.



When you call, give as much of the information as possible on the attached **Tip Information Sheet** or mail the information directly to the Revenue Cabinet. **You need not identify yourself when calling or writing.** The Revenue Cabinet will take appropriate action to collect taxes due.

## TIP INFORMATION SHEET

(Complete prior to calling or mailing.)

License Plate Number \_\_\_\_\_

State of Registration \_\_\_\_\_

Make \_\_\_\_\_

Model \_\_\_\_\_

Name of Operator (if known) \_\_\_\_\_

Address of Operator or Typical Location of Vehicle \_\_\_\_\_

Comments \_\_\_\_\_

Detach and mail to:

**FREEROADERS**  
Kentucky Revenue Cabinet  
501 High Street, Station 32  
Frankfort, KY 40620

or CALL TOLL FREE

**1-800-882-8990**

# BEATING THE SYSTEM

Help  
The  
Revenue  
Cabinet  
Identify  
**FREEROADERS**

**WHO LOSES?**

***YOU DO!***

CALL TOLL FREE

**1-800-882-8990**

CALL TOLL FREE

**1-800-882-8990**

<p><b>Kentucky Revenue Cabinet Mission Statement</b></p> <p>To provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.</p>	<p>The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.</p>
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Commonwealth of Kentucky  
**REVENUE CABINET**  
62F300 (2-09)

# BEATING THE SYSTEM?



## **APPENDIX B**

### **Freddie Freeroader Bookmark and Pamphlets**

**Produced by the  
Kentucky Transportation Cabinet,  
Office of Support Services – Graphic Design and Printing**

**Circa 2010**





## Do you know a FREEROADER?

**FreeRoader** — (*noun*) someone that is beating the system by not properly registering their motor vehicle or improperly using temporary or other tags. Therefore causing a loss of funding for local services such as schools, fire departments, police departments, ambulance services, libraries, etc. Bringing a larger burden on honest taxpayers and stressing the budgets of the local services that teach and protect you and your community.

If you observe Kentucky residents that are  
FREEROADERS call toll free

**1.800.882.8990** or visit  
[freeroader.ky.gov](http://freeroader.ky.gov) for more  
information.

Feel free to leave this on the windshield of  
someone you think  
may be a FREEROADER

*Kentucky law requires the registration of motor vehicles within 15 days from the date they are brought into Kentucky for use. A 6 percent motor vehicle usage tax is levied on motor vehicles for the privilege of operating on Kentucky highways, based on the value at the time they are placed in service in Kentucky. Property tax is assessed annually on vehicles situated in Kentucky on January 1, based on their fair cash value.*

## FREEROADERS

Kentucky Department of Revenue  
501 High Street, Station 32  
Frankfort, KY 40601-2103  
[freeroader.ky.gov](http://freeroader.ky.gov)

Thousands of Kentuckians are beating the system through the improper use in Kentucky of motor vehicles bearing out-of-state license plates or improper use of temporary or other tags.

1.800.882.8990 freeroader.ky.gov 1.800.882.8990

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**TIP INFORMATION SHEET**  
(Complete prior to calling or mailing)

License Plate Number or VIN Number  
(Required) \_\_\_\_\_

License Plate State (Required) \_\_\_\_\_

Vehicle Information

a. Year \_\_\_\_\_

b. Make \_\_\_\_\_

c. Model \_\_\_\_\_

d. Color \_\_\_\_\_

Name and Address of Operator (if known)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Comments \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

If you observe Kentucky residents beating the system by operating motor vehicles on Kentucky highways for more than 15 days with out-of-state license plates or more than 30 days with temporary or other tags, please help the Department of Revenue identify these **FREEROADERS.**

Are you stealing money from my school?



Thousands of Kentuckians are beating the system through the improper use in Kentucky of motor vehicles bearing out-of-state license plates or improper use of temporary or other tags.

Figure 3. Freddie Freeroader Pamphlet – Teacher

1.800.882.8990  
freeroader.ky.gov 1.800.882.8990

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(Complete prior to calling or mailing)

Model

### C. Model

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Figure 1 is a line graph showing the percentage of respondents who believe that the use of force is justified in various circumstances. The x-axis represents the percentage of respondents who believe that the use of force is justified, ranging from 0 to 100. The y-axis represents the percentage of respondents who believe that the use of force is justified, ranging from 0 to 100. The graph shows a positive correlation between the two variables, with a regression line and a shaded confidence interval.

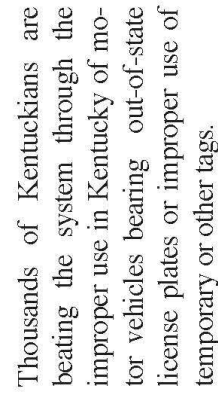
Government	Percentage
Current government	70%
Previous government	30%

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Age Group	Percentage
18-24	18%
25-34	15%
35-44	12%
45-54	10%
55-64	8%
65-74	6%
75-84	4%
85+	2%

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Frankfort, KY 40620



Are you stealing  
money from  
our library?

If you observe Kentucky residents beating the system by operating motor vehicles on Kentucky highways for more than 15 days with out-of-state license plates or more than 30 days with temporary or other tags, please help the Department of Revenue identify these **FREEROADERS.**

1.800.882.8990 freeroader.ky.gov 1.800.882.8990

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Who loses? You do! Kentucky residents beating the system by registering vehicles in other states in order to avoid motor vehicle usage tax and ad valorem property tax make you, the honest taxpayer, the LOSER. Also new residents beating the system by failing to register their vehicles within 15 days after they move into Kentucky make you the LOSER. The ultimate LOSERS are your local school districts and services dependent on revenues from the evaded taxes.

*Approximately 60 percent of the ad valorem property tax is returned to the local community...*

Thousands of Kentuckians are beating the system through the improper use in Kentucky of motor vehicles bearing out-of-state license plates or improper use of temporary or other tags. Such use costs Kentucky millions of dollars annually in motor vehicle usage tax and ad valorem property tax.

The motor vehicle usage tax is used to build and maintain Kentucky's highways. Approximately 60 percent of the ad valorem property tax is returned to the local community, funding your public schools, your fire departments, your police departments, your ambulance services, your libraries, etc., with the remainder contributing to the General Fund.

If you observe Kentucky residents beating the system by operating motor vehicles on Kentucky highways for more than 15 days with out-of-state license plates or more than 30 days with temporary or other tags, please help the Department of Revenue identify these FREEROADERS by calling toll free 1.800.882.8990. When you call, give as much of the information as possible, on the attached Tip Information Sheet or mail the information directly to the Department of Revenue. You need not identify yourself when calling or writing. The Department of Revenue will take appropriate action to collect taxes due.

**FREEROADERS**  
**Kentucky Department of Revenue**  
 501 High Street, Station 32  
 Frankfort, KY 40620

[freeroader.ky.gov](http://freeroader.ky.gov)

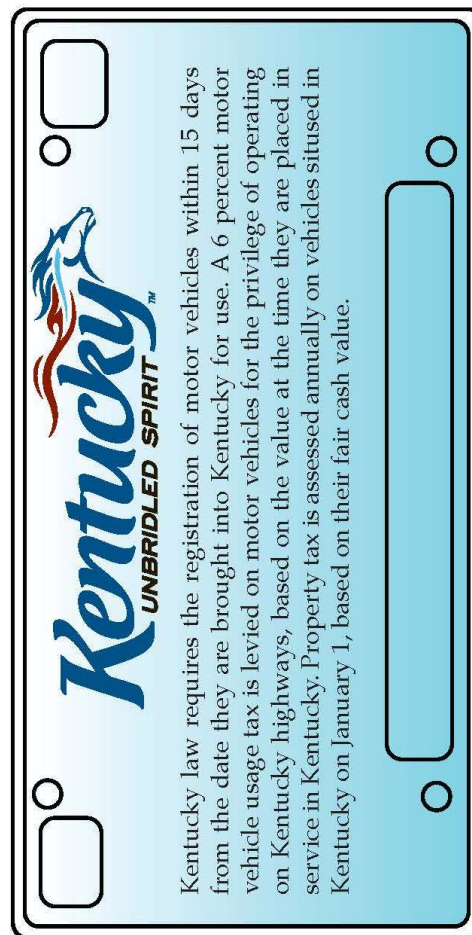


Figure 6. Freddie Freeroader Pamphlet - Common Inner Page

## **APPENDIX C**

### **Freddie the Freeroader Informational Video**

#### **Script for Governor's Video Presentation**

The Kentucky Transportation Cabinet's Office of Support Services worked with members of the Study Advisory Committee to develop and produce an informational video regarding the Freddie Freeroader program in Kentucky. That effort required development of a script, soliciting the participation of members of Kentucky's enforcement community, and preparing the video for distribution.

The script for the informational video is presented below. The video may be viewed on YouTube by using this link: <http://www.youtube.com/watch?v=btjTxwvDxbU>.

### **Script for Governor's speech to support Freddie Freeroader program**

Did you know that every new resident in our Commonwealth is required by law to update their driver's license with their new address within ten days of relocating and must register their vehicles with their new county within 15 days?

Each year Kentucky loses millions of dollars in tax revenue when citizens don't follow the law and avoid paying usage and property taxes by failing to properly register their motor vehicles. This practice is called "Freeroading." Not only is it illegal, it isn't fair to the majority of Kentuckians who pay their share of local and state taxes collected through vehicle registration.

Freddie Freeroaders try to cheat your community out of the revenue needed to maintain government-funded programs. The majority of vehicle property taxes collected stay in your county and are used to maintain schools, libraries, public safety and roads.

If you observe a Kentucky resident driving a vehicle with improperly registered plates or tags, report the Freeroader so that the state and your county can take appropriate actions to collect the taxes due. You are not required to identify yourself when reporting a Freeroader.

Call 1-800-882-8990 or go online at <http://www.freeroader.ky.gov>. The Website includes an informational video, offers more information on who qualifies as a Freddie Freeroader, lists the few exceptions to the vehicle registration law and explains why every taxpayer should help the Kentucky Transportation Cabinet, the Finance and Administration Cabinet Department of Revenue and Kentucky State Police track down Freeroaders.

When every citizen pays their share, it lessens the burden for all of us.  
We all lose when Freddie Freeroaders get away with breaking the law.



## **APPENDIX D**

### **Web-site Content**

## The Problem

Thousands of Kentuckians are beating the system through the improper use in Kentucky of motor vehicles bearing out-of-state license plates or improper use of temporary or other tags. Such use costs Kentucky millions of dollars annually in motor vehicle usage tax and ad valorem property tax.

## The Law

Kentucky law requires the registration of motor vehicles within 15 days from the date they are brought into Kentucky for use. A six percent motor vehicle usage tax is levied on motor vehicles for the privilege of operating on Kentucky highways, based on the value at the time they are first placed in service in Kentucky. Property tax is assessed annually on vehicles situated in Kentucky on Jan. 1, based on their fair cash value.

## Who Loses?

*You do!* Kentucky residents beating the system by registering vehicles in other states in order to avoid motor vehicle usage tax and ad valorem property tax make you, *the honest taxpayer*, the LOSER. Also, new residents beating the system by failing to register their vehicles within 15 days after they move into Kentucky makes you the LOSER. The ultimate LOSERS are your local school districts and services dependent on revenues from the evaded taxes.

## Where the Money Goes

The motor vehicle usage tax is used to build and maintain Kentucky's highways. **Approximately 60 percent of the ad valorem property tax is returned to the local community, funding your public schools, your fire departments, your police departments, your ambulance services, your libraries, etc.,** with the remainder contributing to the General Fund.

## The Solution

If you observe Kentucky residents evading the system by operating motor vehicles on Kentucky highways for more than 15 days with out-of-state license plates or more than 30 days with temporary or other tags, please help the Department of Revenue identify these FREEROADERS by calling toll free 1-800-882-8990 or completing the online form below. When you call, give as much of the information as possible on the Tip Information Sheet. **You need not identify yourself when calling or submitting an online tip.** The Department of Revenue will take appropriate action to collect taxes due.

* License Plate or VIN Number	<input type="text"/>
* State of Registration	<input type="text"/>
Vehicle Information	<input type="checkbox"/>
Year of Vehicle	<input type="text"/>
Make	<input type="text"/>
Model	<input type="text"/>
Color	<input type="text"/>
Name of Operator	<input type="text"/>
Date and Time Vehicle was Observed (ex. 06/01/09 11:00 am)	<input type="text"/>
Location Where Observed (Street, City)	<input type="text"/>
Comments/Evidence (Please include any relevant information that might help with the investigation; specific addresses where the vehicle is observed, how long has the vehicle been seen in Kentucky; local decals/bumper stickers/license plate frames, etc.):	<input type="text"/>
	<input type="button" value="Submit"/>

**Figure 7. Information requested for input at the Freddie Freeroader web-site. Items designated with an \* are required information.**

## **APPENDIX E**

### **Example of Letter of Notification**

Commonwealth of Kentucky

FINANCE AND ADMINISTRATION CABINET  
**DEPARTMENT OF REVENUE**  
**OFFICE OF PROPERTY VALUATION**

STATE VALUATION BRANCH  
501 High Street, SOB 4<sup>th</sup> Floor Sta. 32  
Frankfort, Kentucky 40601  
Phone (502) 564-8180 Fax (502) 564-8923  
WWW.REVENUE.KY.GOV

August 23, 2010

[REDACTED]  
Covington, KY 41011

RE: 2007 Ford VIN [REDACTED]  
Kentucky Motor Vehicle Usage Tax

Dear [REDACTED],

Information available to this office indicates that you are the owner of a 2007 Ford referenced above which is being operated in Kentucky but is registered in Ohio bearing Ohio plate # T [REDACTED].

KRS 186.020 requires that before the owner of a motor vehicle may operate it or permit its operation upon a highway, the owner shall apply for registration in accordance with regulations issued by the Department of Revenue. A person who purchases a motor vehicle, or brings a motor vehicle into the Commonwealth of Kentucky from another state shall make application for registration within fifteen (15) days. If the owner resides outside of Kentucky, the motor vehicle shall be registered in the county in which it is principally operated. KRS 138.460 levies a six percent Motor Vehicle Usage Tax on the use in Kentucky of every motor vehicle, except those exempted by KRS 138.470. Vehicles based in Kentucky are also subject to the annual Personal Property tax.

As your Ford appears to have acquired a tax base in Kentucky it should be registered in Kentucky as required by KRS 186.020. In order to prevent an assessment of any Motor Vehicle Usage Tax due, please advise this office of the date the vehicle is registered in Kentucky.

Should you have any questions regarding this matter, please contact this office at (502) 564-7158. Or write to: Division of State Valuation, Station 32, 501 East High Street, Frankfort, KY 40620.

Sincerely,

[REDACTED]  
**Figure 8. Letter sent to potential Usage tax violator.**

## **APPENDIX F**

### **Kentucky Revised Statutes Relating to Misuse of License Plates**

## **Kentucky Revised Statutes Relating to Misuse of License Plates**

### **Out of State Plates**

**KRS 186.150 – Residents not to use licenses of other states.** (1) “No resident operating a motor vehicle on the highways, shall secure or license the motor vehicle in any state other than Kentucky unless so license in conformity with a motor vehicle reciprocal arrangement or under the International Registration Plan (IRP). (2) The use of a license of any state other than Kentucky by a resident of this state on his/her vehicle driven over Kentucky highways shall be prima facie evidence of guilt.”

**KRS 186.010 Definitions (12) (in part).** – ““Resident” means any person who has taken up a place of abode within this state; or any person who has had his actual or habitual place of abode in this state for the larger portion of the twelve (12) months next preceding the date on which his motor vehicle is registered or required to be registered in Kentucky; or any person maintaining a place of abode in the state for gainful employment;...The possession by an operator of a vehicle of a valid Kentucky operator’s license shall be prima facie evidence that the operator is a resident of Kentucky.”

**KRS 186.020 Registration Requirement.** – (1) “Before the owner of a motor vehicle, or other than a motor vehicle engaged in the transportation of passengers for hire operating under a certificate of convenience and necessity, may operate it or permit its operation upon a highway, the owner shall apply for a registration in accordance with regulations issued by the Cabinet, except that a person who purchases a motor vehicle, or brings a motor vehicle into the Commonwealth from another state shall make application for registration within fifteen (15) days. The bill of sale or assigned title must be in the motor vehicle during this fifteen (15) day period. If the owner of a motor vehicle is an individual and resides in the Commonwealth, the motor vehicle shall be registered with the county clerk of the county in which the motor vehicle is principally operated. If the owner of a motor vehicle is other than an individual and resides in the Commonwealth, the motor vehicle shall be registered with the county clerk of either such county....”

**KRS 186.990 Penalties (9).** – “Any person who violates any provision of KRS 186.070 or KRS 186.150 shall be guilty of a Class A misdemeanor.”

**KRS 186.990 Penalties (12).** – “Any resident who unlawfully registers, titles or licenses a motor vehicle in any state other than Kentucky with intent to evade the Motor Vehicle Usage Tax or the registration fee shall be guilty of a Class A misdemeanor if the amount of the tax due is less than one hundred dollars (\$100), or of a Class D felony if the amount of tax due is more than one hundred dollars (\$100), and in addition shall be liable for all taxes so evaded with applicable interest and penalties.”

### **Temporary Tags**

**KRS 186A.110 – Liability for improper issuance of temporary registration.** – “Both the dealer and the dealer's salesman or agent shall be liable for separate penalties for issuance of a

temporary tag prior to sale of the vehicle on which the tag is placed by the dealer, for placement of a tag on a vehicle other than one purchased by the purchaser shown on such tag, for failure to fully execute as provided in this section a temporary tag which is placed upon a vehicle, and for failure to maintain the records required by KRS 186A.105.”

**KRS 186A.990 Penalties (4).** – “Any person who operates a motor vehicle or trailer upon the highways of this state without a temporary tag when one is required, or with one that is expired, improperly executed, or displayed on a vehicle other than the one (1) to which it was legitimately and lawfully issued, shall be guilty of a Class B misdemeanor.”

#### **Dealer Plates**

**KRS 186.990 Penalties (10).** – “Any person who operates a vehicle bearing a dealer's plate upon the highways of this Commonwealth with intent to evade the motor vehicle usage tax or registration fee shall be guilty of a Class A misdemeanor for the first offense and a Class D felony for each subsequent offense.”

**KRS 186.990 Penalties (11).** – “Any person, other than a licensed dealer or manufacturer, who procures a dealer's plate with intent to evade the motor vehicle usage tax or registration fee shall be guilty of a Class D felony.”

#### **Motor Vehicle Usage Tax**

**KRS 138.455 Construction of KRS 138.450 to 138.470.** – “The tax imposed by KRS 138.450 to 138.470 shall be construed as a tax on the privilege of using a motor vehicle upon the public highways of this Commonwealth and shall be separate and distinct from all other taxes imposed by this Commonwealth. The provisions of KRS 138.450 to 138.470 shall in no way be construed together with the provisions of KRS Chapters 132 or 139.”

**KRS 138.460 Motor vehicle usage tax -- Imposition -- Rate -- Collection -- Refunds.** – “(1) A tax levied upon its retail price at the rate of six percent (6%) shall be paid on the use in this state of every motor vehicle, except those exempted by KRS 138.470, at the time and in the manner provided in this section. (2) The tax shall be collected by the county clerk or other officer with whom the vehicle is required to be titled or registered:

- (a) When the fee for titling or registering a motor vehicle the first time it is offered for titling or registration in this state is collected; or
- (b) Upon the transfer of title or registration of any motor vehicle previously titled or registered in this state.”

**KRS 138.990 Penalties (10)(b).** – “ Any person who violates any of the other provisions of KRS 138.460 to 138.470 shall be fined not less than twenty-five dollars (\$25) nor more than one thousand dollars (\$1,000) and if the offender is an individual, he shall be guilty of a Class A misdemeanor.”

**KRS 138.990 Penalties (17).** – “Any person who intentionally evades payment of the tax imposed by KRS 138.460 or 138.463 shall be liable for the taxes evaded, with applicable interest and penalties, and in addition shall be guilty of:



- (a) A Class B misdemeanor if the amount of tax evaded is two hundred fifty dollars (\$250) or less; and,
- (b) A Class A misdemeanor if the amount of tax evaded is greater than two hundred fifty dollars (\$250)."

**KRS 131.180 Uniform Civil Penalty Act.** – (1) (in part) "...pay a penalty equal to two percent (2%) of the total tax due for each thirty (30) days or fraction thereof that the report or return is late. The total penalty levied pursuant to this subsection shall not exceed twenty percent (20%) of the total tax due; however, in no case shall the penalty be less than ten dollars (\$10)."

### **Ad Valorem Property Tax**

**KRS 132.220 Assessment dates -- Listing -- Owner -- Liability -- Exemptions, listing, annual review (1) (in part).** – "...It shall be the duty of all persons owning any tangible personal property taxable in this state to list or have listed the property with the property valuation administrator of the county of taxable situs or with the department between January 1 and May 15 in each year, except as otherwise prescribed by law. All persons in whose name property is properly assessed shall remain bound for the tax, notwithstanding they may have sold or parted with it."

**KRS 132.290 Omitted property, what constitutes -- Periods within which it may be assessed retroactively -- Penalties and interest (4)** – "All omitted property not voluntarily listed shall be subject to a penalty of twenty percent (20%) of the amount of taxes, and interest at the tax interest rate as defined in KRS 131.010 (6) from the date when the taxes would have become delinquent had the property been listed as required by law, until the date the tax bill is paid."